MSTC Limited

April 26, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	800 (reduced from 900)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	5330.05 (reduced from 5480)	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total	**6,130.05 (Rs. Six thousand one hundred thirty crore and five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MSTC Limited (MSTC) continue to draw comfort from the long track record of the company, Government of India's (GoI) controlling stake, strong distribution channels, stable source of revenue from service income, favorable outcome of ongoing legal proceedings against gold purchasers & suppliers as well as progress made towards settlement of insurance claims and moderate financial performance.

However, the ratings are constrained by inability of MSTC to recover significant amount of dues pertaining to export bill proceeds of gold jewellery transaction for a considerable time period, significant dependence on few large customers, intense competition, low operating margin and high collection period.

The ability of the company to recover overdue export proceeds, garner more business and improvement in its profitability margins and capital structure amidst rising competition remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long and satisfactory track record: MSTC was set up in Sept, 1964, for regulating export of ferrous scrap from India. Since 1991, MSTC has been in direct marketing of melting scrap, coke/coal, iron ore and other products.

Strong distribution channels: MSTC has established two channels of sales, viz trading division and e-commerce division. Use of two e-commerce portals of the company has helped the division to expand its reach and enhance business volumes. MSTC also has seven branch offices spread all over the country and four regional offices which act as sales hubs for the company, controlling the sales activities for the region. These offices focus on use of e-portals & e-procurement and market the same, besides carrying on usual marketing.

Stable source of revenue from service income: MSTC earns stable service income through the e-commerce business and sales done through facilitator mode (i.e. raw material for secondary steel producers and petrochemical industry).

Moderate financial performance in FY16 & 10MFY17, albeit revenue witnessed decline: Although the total operating income witnessed a decline in FY16 & 10MFY17 due to subdued demand for metals, particularly steel coupled with decline in prices, profitability margins witnessed improvement during the same period.

The Company does not have long term loans. Net overall gearing ratio (including acceptances) improved from 2.65x as on March 31, 2015 to 2.09x as on March 31, 2016. Though Interest coverage deteriorated from 2.41x in FY15 to 1.86x in FY16 due to decline in PBILDT coupled with increase in interest expenses, it continued to remain satisfactory.

Favorable decrees received by MSTC for the legal suits filed by it: During FY09, MSTC exported gold jewellery worth Rs.638.21 crore to 46 customers based in UAE Singapore and Kuwait through six jewellery manufacturers/merchants (called Associates) based in Mumbai. Out of this, foreign export bills for about Rs.184.66 crore were sold to Standard Chartered Bank (SCB) under factoring arrangement without recourse. The due date of payments from Dubai based customers was due in 2009 and the debtors didn't honor the payment commitment.

As on Mar.31, 2016, MSTC had outstanding such receivable of Rs.598.63 crore out of which the company has made a total provision of Rs.235.78 crore in FY13 and FY14.

MSTC had filed legal suits aggregating Rs.658.40 crore in different forums against the 46 buyers. As on March 31, 2016, the company has got judgement in its favour for all the 46 cases and approached the appropriate courts for execution.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Four parties have appealed against the court order out of which one case has been rejected. The other cases are in progress in respective courts.
Against the total amount of receivables purchased by SCB, a balance amount of Rs.143.62 crore remained outstanding as on March 31, 2016. SCB had insured the total amount of receivables purchased by them with ICICI Lombard (ICICIL) in case of a default in payment by the debtors. SCB had filed a suit against ICICIL in the Hon'ble Bombay High Court for payment of claim and has got ex-party decree in its favour. ICICI Lombard subsequently had filed a Notice of Motion setting aside the ex-parte decree. The matter is presently subjudice.
Arbitration proceeding has also been initiated against the six associate suppliers. MSTC has got arbitration award in three of these cases amounting to Rs.348.66 crore. The proceedings against other three associate suppliers are still pending.
MSTC had lodged claims with Export Credit Guarantee Corporation of India (ECGC) for Rs.450.75 crore for non-payment of dues by the buyers insured by ECGC. However, the claim was repudiated by ECGC. Consequently, MSTC had initiated cases against ECGC with National Consumer Disputes Redressal Commission (NCDRC) which has referred the matter to civil court or any other appropriate forum. The company had filed statutory appeal to Hon'ble Supreme Court against the order. The matter has been referred for arbitration.

Key Rating Weaknesses
Significant dependence on few large customers: The top 5 customers of MSTC contributed about 79% of total gross sales (including sales from facilitator mode) in FY16.

High collection period: MSTC finances the purchase of industrial bulk raw materials on behalf of its buyers which is partially backed by LCs & secured deposits. These buyers are generally slow in lifting material and accordingly, MSTC's collection period is high. However, the company also maintains high creditor's period (including LCs); thus the additional credit days offered to customers are financed through creditors (incl. LCs). Further the inventory is held by the custodian and the inventory is released to customers on receipt of payment by MSTC.

Intense competition and low operating margin: Trading industry is highly fragmented with a few large PSUs and a large number of private players in the fray. Accordingly, the company faces intense competition which impacts its profitability.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Criteria for wholesale trading

About the Company
MSTC, a Mini-Ratna Category-I Public Sector Undertaking (PSU) of Government of India (GoI), was set up in September, 1964 for regulating export of ferrous scrap from India. Currently, the company is under the Ministry of Steel, GoI and is engaged in trading of various items in both the domestic and global markets. MSTC's operations are order driven and the trading goods vary depending on the market requirements and opportunities.
As per the audited results for FY16, MSTC reported a PAT of Rs.59.88 crore (Rs.90.99 crore in FY15) on total operating income of Rs.4,547.44 crore (Rs.7,190.48 crore in FY15). Based on provisional results for 10MFY17, MSTC reported PBT of Rs.66.31 crore on total operating income of Rs.3,656.51 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	3900.05	CARE A3+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	400.00	CARE A3+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	1030.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	800.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-BG/LC	ST	3900.05	CARE A3+	-	1)CARE A3+ (12-Apr-16)	-	1)CARE A3+ (30-Mar-15)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	400.00	CARE A3+	-	1)CARE A3+ (12-Apr-16)	-	1)CARE A3+ (30-Mar-15)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	1030.00	CARE A3+	-	1)CARE A3+ (12-Apr-16)	-	1)CARE A3+ (30-Mar-15)
4.	Fund-based - LT-Cash Credit	LT	800.00	CARE BBB; Stable	-	1)CARE BBB (12-Apr-16)	-	1)CARE BBB (30-Mar-15)

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